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The Honourable Robert Nault

Standing Committee on Foreign Affairs and International Development

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● (1530)

[*English*]

The Chair (Hon. Robert Nault (Kenora, Lib.)): Colleagues, seeing that the clock shows 3:30, I call the meeting to order. Pursuant to Standing Order 108(2), we are studying Canada's engagement in Asia.

In front of us today as witnesses are, from the Asia Pacific Foundation of Canada, Stewart Beck, president and chief executive officer, who's by video conference live from Vancouver, and as individuals, James Boutilier, adjunct professor, Pacific studies, University of Victoria—welcome to Mr. Boutilier—and Marius Grinius, fellow at the Canadian Global Affairs Institute and former Canadian ambassador. It's always nice to see our former ambassadors visit.

As always, we want to hear your perceptions of Asia, and generally we then get to questions by our colleagues. I'm not sure who's decided to go first. I think it's Mr. Beck by video.

We'll turn the floor over to you, Mr. Beck.

Mr. Stewart Beck (President and Chief Executive Officer, Asia Pacific Foundation of Canada): Thank you very much, Mr. Chair.

Thank you to the committee for the opportunity to appear today to discuss the important issue of Canada's engagement with Asia.

My name is Stewart Beck. I am president and CEO of the Asia Pacific Foundation of Canada, a not-for-profit organization established by an act of Parliament in 1984, and a leader in the research and analysis on Canada-Asia relations for over 30 years. Our mission is to be Canada's catalyst for engagement with Asia, and Asia's bridge to Canada.

First, let me provide a brief overview of my Asia-related background and experience. Prior to joining APF Canada, I served as Canadian high commissioner to India, with concurrent accreditation as ambassador to Bhutan and Nepal. I joined Canada's Department of External Affairs and International Trade, now Global Affairs Canada, in 1982. I served abroad in the United States, Taiwan, and the People's Republic of China. I was consul general in Shanghai, and prior to my posting to India, I was consul general in San Francisco. In Ottawa, I held a number of senior positions, including director general of the North Asia bureau; director general responsible for senior management and rotational assignments; and assistant deputy minister for international business development, investment, and innovation.

Today let me start by underscoring the importance of Asia to Canadians and to Canada. My focus will be on economics and non-traditional security threats, as there are two very competent and capable witnesses speaking with you today who will, I'm sure, address security issues in the region. They are my former colleague Marius—it's good to see you, Marius—and my good friend Jim Boutilier.

The rise of Asia marks one of the defining shifts of the 21st century. Asia will soon represent 44% of the world's gross domestic product, 54% of the global middle class, and 42% of the world's total consumption. As we consider the region it is important to remember that while China is certainly the player to watch, Asia is not a monolithic entity. Asia is not China; it's a region comprising multiple types of economies, styles of governance, and geopolitical realities. A one-size-fits-all approach will not advance Canada's interests in the region.

The growing significance of Asia underscores the need for Canada to strategically deepen and diversify its existing partnerships in the region, which is a fast-changing, complex, and increasingly competitive environment. The timing could not be better. The wave of isolationist, national rhetoric that has been sweeping the U.S. and Europe has sent a chill through legacy alliances and trusted relationships in the Asia Pacific. As these countries look for new friends, Canada is receiving renewed attention for its social and economic openness, transparent business culture, and good governance.

I am pleased to see that the Government of Canada is responding to this dramatic global shift by accelerating its engagement with Asia, making trade with China and India a pillar of its overseas agenda, and launching foreign trade missions and negotiating free trade agreements with renewed enthusiasm. My colleague Hugh Stephens will speak in more detail to you later today about these initiatives, but we are all encouraged by the renewed activity around CPTPP, China, ASEAN, and of course, NAFTA.

To date, Canada has been fortunate to have sources of growth and stability in traditional partners such as the United States and Europe. These partnerships should not and must not be ignored. But the Government of Canada has a pressing opportunity to articulate a more targeted and strategic approach to engaging Asia that both advances Canadian national interests and contributes to the sustainable development and growth of the region.

To assist the Government of Canada in this endeavour, APF Canada released a strategic paper over a year ago that outlines a series of recommendations for the government to consider as it articulates its response to the rise of Asia. The strategy paper is entitled "Building Blocks for a Canada-Asia Strategy" and is available on our website. We've identified five key drivers of change and growth in the Asia Pacific region and the challenges and opportunities they present for Canada. Today I'd like to focus on two: technology and innovation, and demographics.

Perhaps the most significant development in the Asia Pacific this decade is the socio-economic levelling effect of the Internet. The increase in Internet usage is completely transforming domestic and traditional market economies into global and digital ones, as we see in the recent upsurge in e-commerce sales. From 2013 to 2018, Asia's e-commerce sales are expected to double to $854 billion. In China alone, the e-commerce market has grown 50% annually since 2011 and has already passed that of the United States to become the world's largest online market.

● (1535)

Meanwhile, Asia is rapidly becoming a global hub for technology and innovation. Asian businesses and governments are looking for opportunities to learn from partners in Canada how to establish healthy innovation ecosystems and how to catalyze entrepreneurship. The Government of Canada's investment in innovation superclusters is a strong domestic growth strategy, but imagine if we align these domestic investments with our relationships in Asia.

A redefinition of demographics in Asia is another driver of change in the region. In developed economies such as Singapore, Hong Kong, Taiwan, South Korea, and Japan, elderly populations will soon dominate. Investment boosts in national pensions, health care, and research in medical technology have already started as governments prepare to meet the demands of the elderly. We must ask ourselves how Canada can leverage its own expertise to take advantage of these new opportunities.

Developing countries in south and Southeast Asia, on the other hand, are experiencing youth bulge populations, with almost half of the Southeast Asian population expected to be under 30 years of age by 2020. In the same year, India is projected to become the world's youngest country, with 64% of its population in the working age group. Canada can help address the shortage of skilled workers in south Asia and parts of Southeast Asia while also helping governments address the potential risks associated with large unemployed youth populations.

Meanwhile, middle-class growth and urbanization in Asia create a further set of opportunities and challenges for Canada. Higher-earning households can now spend greater amounts on international travel and luxury items, many imported from abroad. Asian parents are sending their children overseas for a higher education, primarily to welcoming, English-speaking western countries like Canada.

We have also seen a positive trend in the rising demand in food products imported from trusted sources. Wealthier populations, particularly in India, are simply eating more vegetable proteins like pulses every day, with associated pressures on regional water security becoming increasingly urgent.

On the home front, research and surveys conducted by APF Canada over the past 10 years indicate that there is a knowledge gap among Canadians regarding countries in Asia and that few Canadians have been exposed to Asia or Asian business culture. To narrow this knowledge gap, we must invest in young people, supporting programs for youth to study and work in Asian countries. Canada's youth are keen for the challenge. Our latest APF Canada national opinion poll on Canadian millennials' views on Asia found that millennials are more positive about Asia in general and more engaged with the region through work, travel, language, and social networks than generation X, the baby boomers, and the older generation. The good news for the Canadian government is that our millennials are more likely to be receptive to a pro-engagement policy than their elders. Younger millennials, in particular, tend to be more open-minded and interested in the Asia opportunity. This poll can be found on our website.

In summary, Asia has just not been on our radar screen, and we have had little or no reason or desire to connect. The result is that our market share of total imports in Asia is 1.02%. The share in Australia and Germany, by comparison, is almost 4%, and for the U.S. it is almost 10%.

The time is now for us to diversify our interests and pursue the growth opportunities perceived by the Asian century. To do so, we will need a strategy and the Government of Canada's leadership in the development and implementation of the strategy.

Thank you for allowing me to spend a few minutes with you today.

I am happy to take any questions.

● (1540)

The Chair: Thank you, Mr. Beck.

We will go to Mr. Boutilier, please.

Dr. James Boutilier (Adjunct Professor, Pacific Studies, University of Victoria, As an Individual): Thank you very much, Mr. Chair and members of the committee.

I would opine editorially that we're about 30 years late. We should have been having this discussion back in 1990. It's astonishing to me that the profundity of the transition from the Atlantic to the Pacific is only now effectively being addressed. President Beck captured, in his elegant tour of the horizon of the geostrategic and economic outlook in Asia, the fact that Asia is now appearing on our radar screen. It's astonishing when you think that back in 1980 China was the 17th largest economy on the face of the earth and now it's arguably the second- or third-largest economy on earth. Where were we? Frankly, ladies and gentlemen, we were asleep at the switch.

I would suggest that historically Canada's engagement in Asia has been tardy, inconsistent, and ineffective. We have simply not risen to the challenge. In defence of Canada, we could say that the overwhelming dependence on the U.S. market, ties across the Atlantic, and institutional responsibilities to NATO and other organizations have deflected us from Asia. However, ironically, within Canada the national centre of gravity is moving westward relentlessly, and Asia, as reflected in this very committee, has in fact arrived in Canada. The Asianization of the urban settings and complexes of Canada is very much a contemporary phenomenon, and it's a very good thing as well.

In defence of Canada, our involvement in Afghanistan and in NATO commitments have deflected Ottawa's attention from the magnitude of what's happening in Asia. As an organization, I would suggest that DFAIT, or DFATD, or GAC has become progressively weaker and less influential in shaping the nation's engagement strategy in Asia. We have not had vision and leadership. This is not for an instant to overlook the dozens of small and medium-sized enterprises that are in fact doing business in Asia. Asia is not an easy place to do business in many cases, but there are enormous opportunities.

I would suggest to you that there has been a disturbing paucity in the number of foreign policy statements over the years that have come to grips with Canada and Asia. The fact is that we live in a state of deficit now in terms of an overarching foreign policy. Our defence review is absent any foreign policy that focuses on Asia. Indeed, were we to look at the defence realm and go back to 1971, the paradox is that, when we analyze policy documents on Canadian defence, we see that by 1990, at the very time that Asia was taking off relentlessly in a stellar manner, references to Asia virtually vanished from defence department documents. There's almost nothing of substance about the importance of engaging Asia, and I suggest a little later in my presentation that the defence department has a key role to play.

The Prime Minister's recent sorties to Asia—Vietnam, China, India—can only be described as colossal failures. Someone should be hanged by the thumbs. This is appalling in this age and stage of our national engagement in Asia. This of course begs some serious questions. Who organized this? Who executed it? It's astonishing to me. To leave Prime Minister Abe standing at the altar in Da Nang was appalling in terms of establishing our credibility.

I would suggest that this government, perhaps more than the previous one, is trapped between a commitment to Liberal values and the practicalities of forging economic relationships with increasingly unsavoury polities in Asia. Asia is very dynamic, very attractive, and very seductive, but as we all know, the human rights record in some Asian countries is little short of appalling. To what degree do we allow our economic engagement to be held ransom by interlocking it with a values system?

● (1545)

Disaggregating these two strategies at a time when the global community is becoming increasingly polarized on the issue of values will be one of the government's greatest challenges. While the missionary impulse is powerful and deeply seated in Canada, it is doomed to fail. One of the greatest realizations to emerge from the past quarter century is just how naive western policy-makers were in expecting China's value system to be transformed along western lines as it grew economically. The very opposite occurred.

Should we abandon our values? Not for an instant. That's not what I'm recommending. What I'm suggesting is that we have to be extraordinarily clear in our minds in establishing our priorities of what agenda we are advancing when we engage certain countries in Asia. Certain countries in Asia are becoming more difficult, more unsavoury, every day.

As president Beck has suggested, while the amount of Asia-Pacific trade has grown steadily over the past quarter century, Canada's market share has continued to decline. We can see that it's barely the width of a pencil line, despite the efforts of many Canadian companies. One of the challenges, of course, is that Canada has a population equal to one of the major cities in China. There are no big corporations in Canada to speak of, perhaps the Bombardiers and SNC-Lavalins notwithstanding. It's difficult to compete, but that's the reality.

Pragmatism and prioritization should be the guiding principles in our engagement with the region. We have many other arenas in which to realize the values which underpin our Canadian democracy. I suggest that the Canadian Armed Forces and the Royal Canadian Navy—not because I work for the navy, but because it is a vehicle of national power that is remarkably flexible, in every sense of the word—should be instruments in telegraphing Canada's commitment to the region. It's not enough simply to send ships to Asia; we have to do it in an orchestrated way which maximizes the value in terms of a full array of other activities.

This is an era when interstate relations are being played out at sea in Asia, when there's a naval arms race under way in the region, and when militaries, serving or retired, play an extraordinarily important role in the region's affairs. This is something we tend to forget, the degree to which militaries, in and out of uniform, are in fact major opinion-makers in many of the policies we're dealing with.

I would suggest, ladies and gentlemen, that ASEAN, much to my regret, is roadkill. The irony to me is that at the very moment that ASEAN has achieved community status, it has in fact been hopelessly fragmented and undercut as a result of Chinese money and politics. One only has to look at the state of Laos, Cambodia, and increasingly Malaysia, and so forth, to realize that the community, which was one of the major balancing elements in the larger geostrategic landscape of Asia, has reached the point of near failure, at least to to my mind. That is not to suggest that there aren't economic opportunities for Canada. In fact, in many cases, the scale of ASEAN countries is much more attractive to Canada than, for example, China or even India. But my own feeling is that a tragedy is unfolding in ASEAN as we speak.

In conclusion, I would suggest that Canada has a profound branding deficit in Asia. Canadians are seen as nice people, but frankly irrelevant. The question asked in the region is, are the Canadians really serious about being engaged in Asia? We have not followed some simple precepts: you have to be there consistently, you have to build relationships, you can't butterfly in and out on the grounds that it's a long way from Ottawa, whereas London, Frankfurt, and Rome are just overnight trip away and that when you get off the plane you know people.

● (1550)

Sadly, Asia, in many cases, I think is subconsciously in the all-too-difficult file. It's so much easier when you're dealing with Houston or Milwaukee. You don't have to worry about language or the regulations or the currency, and so forth. It's not easy in Asia, but we're missing enormous opportunities, we're deluding ourselves, and this is the sort of discussion we should have had 30 years ago.

Thank you very much.

The Chair: Thank you very much, Mr. Boutilier.

We'll go to Mr. Grinius, please.

Mr. Marius Grinius (Fellow, Canadian Global Affairs Institute, Former Canadian Ambassador, As an Individual): Thank you very much for the invitation.

In terms of my own credentials with respect to Asia-Pacific, I've had five postings to the region, including as ambassador to Vietnam and to North and South Korea concurrently. Somewhere in-between, I was also the director for Southeast Asia. With respect to security issues, I was the ambassador to the United Nations in Geneva, dealing with refugees, human rights, humanitarian relief, and the entire gamut that Stewart referred to. Also, I was the ambassador to the Conference on Disarmament. My last assignment before retiring was to the Department of National Defence, as the director general for international security policy.

With the eight minutes allotted to me, I'd just like to make a few observations regarding Canada's engagement with the Asia-Pacific region. Your goal is to identify areas where Canada can deepen its engagement in the region, and that's a good goal. Ensuring that Canada's engagement is coherent and consistent is the big challenge, and I note that the last extensive foreign policy review of Canada and Asia-Pacific was done by the Senate Standing Committee on Foreign Affairs back in 1998. It was called "The importance of the Asia Pacific region for Canada". The Senate also did an update on Southeast Asia in 2015. They are still good documents to read.

My first observation is in the global context, where I believe that there is a new great game being played out between an ascendant China and a United States in retreat. I would argue that the U.S. and now China are Canada's two most important bilateral relationships—for different reasons, but they are the top two in my eyes. However, Canada must be prepared for more global turbulence as these two powers compete in trade, hard power, and soft power in order to establish what could be a new modus vivendi between them, or even perhaps a new global order. In this new great game, China is being assisted by its junior partner, Russia.

Since your visit to Beijing, Xi Jinping, of course, has enacted constitutional amendments, a very important one, and as *The Economist* put it recently, "China stepped from autocracy into dictatorship".

My second observation is about the Asian paradox. It refers to the ironic situation whereby, despite Asia's growing economic interdependence, the level of political and security co-operation there remains low. Despite incentives for even greater prosperity within a predictable and peaceful environment, the potential military conflict can certainly jeopardize Asia's economic successes, with global implications. You're well aware of the security issues: South China Sea, the East China Sea, India, Pakistan, and Taiwan. Perhaps most pressing right now is North Korea.

Canadian trade commercial interests remain at the top of the Asia-Pacific foreign policy agenda, but I believe there is a need to pay attention to Asia's security dimension, and for Canada to contribute to a robust Asia-Pacific security architecture, if only out of self-interest. Singapore's defence minister just talked about the security architecture yesterday at an ASEAN conference.

Of course, I would suggest that Canada's contribution would be regularly showing the flag in the region, regular high-level political-military talks, and perhaps resuscitating Canada's role in track two discussions, where Canada was front and centre in the 1990s and early 2000s. Certainly Canada can also play a role in terms of the human rights dimension, whether we're talking North Korea, the Rohingya, China writ large, or about extrajudicial killings in the Phillippines.

● (1555)

My third observation is on North Korea. You're aware that there's a frenzy of related summits about to take place in the next few months. Prime Minister Abe is meeting President Trump today, and North Korea is high on the agenda.

I am in the school that believes that Kim Jong-un will not negotiate away his nuclear weapons, and that there's not going to be a really fundamental change in the situation until China admits that North Korea is a strategic liability for China's global ambitions.

Canada has been, unfortunately, a marginal player on the North Korea file ever since the Harper government decided back in 2010 that it would have a short-sighted policy of "controlled engagement". The Trudeau government has allowed that policy drift with respect to North Korea to continue even as the geopolitical landscape is rapidly changing but remains highly dangerous and unpredictable.

I understand that you will be going to Japan and South Korea next, both of whom are strategic partners for Canada. I think you will find the Japanese very wary of what is happening on the Korean peninsula, and perhaps the South Koreans overly optimistic. You may wish to ask both hosts if there is a role for Canada, but you will have to dig beyond the usual politesse to get some straight answers from both of your hosts.

One obvious starting point for Canada is for Canada's ambassador to Seoul to once again be cross-accredited to Pyongyang. You have to be there. You have to know what's going on. You can't rely on somebody else telling you what's going on.

My fourth observation is on Canada and ASEAN. You have already travelled to Indonesia. You met the secretary general of ASEAN. You know the history of Canada's dialogue partnerships in 1977 and our being one of the partners of the ASEAN Regional Forum. But when ASEAN inaugurated the first East Asia Summit back in 2005, Canada was not invited. When ASEAN decided to expand their defence ministers' meeting to include EAS members, again Canada was not there. Prime Minister Trudeau certainly asked, and almost pleaded, in Manila to join, but this has been a message from Canada for a long time. I believe ASEAN is not quite convinced of Canada's commitment to Southeast Asia, or to Asia for that matter, but our ASEAN friends, whom I know very well, I believe, are too polite to tell us.

Canada certainly must demonstrate a serious long-term track record of participation in ASEAN's strategic security problem priorities, but the Asian way requires frequent and consistent face time. Personal relations are very important.

Back in 1995, Foreign Minister André Ouellet actually consulted them. He invited all ASEAN foreign ministers to Vancouver in preparation for the G7 Halifax Summit. I thought that was a pretty good idea, but I don't think any Canadian G7 hosts subsequently, including for the G7 Summit coming up very shortly, have asked ASEAN its opinions.

One caveat, and Jim has mentioned it, is that ASEAN, I believe, is drifting further into a club of authoritarian regimes. In this context, it will be important, I believe, to strengthen relations with both Indonesia and Singapore.

● (1600)

As a last observation, and as my bottom line, I'll say that Canada is already a strong economic player in the Asia-Pacific region. It could certainly be stronger, but it's there. It has deep social, cultural, and historic roots there, but it must not really demonstrate a stronger, more-consistent commitment to Asia-Pacific stability and security. I think it is in Canada's interest to do so.

Thank you.

The Chair: Thank you very much, Mr. Grinius, and to all three witnesses.

Colleagues, we'll stick pretty close to the time limits so that we can get in as many questions as we can.

Mr. O'Toole, you're on.

Hon. Erin O'Toole (Durham, CPC): Thank you very much, Mr. Chair, and thank you very much to our witnesses today. There's been some very compelling testimony. It is nice to see two of our former ambassadors still very much engaged in dialogue with Canada and our allies around the world. Thank you for continuing to help us advance that.

I have a couple of questions for Mr. Beck and Dr. Boutilier.

Mr. Beck, regarding the 19th people's congress and the refocusing of the Chinese leadership on state-owned enterprises, we're facing a number of situations in Canada where increasingly, the ability of Chinese state-owned enterprises to acquire Canadian companies can cause some difficulties with regard to the direction that the U.S. is taking, possibly complicating the Canada-U.S. trade relationship with our willingness to approve these large transactions. Aecon is the one in the news now, but there were some security ones previously.

Where do you see this going? It seems that with the 19th people's congress, China's government is reinforcing its use of state-owned enterprises as a foreign policy tool.

Mr. Stewart Beck: I would agree with you in the context of the role of state-owned enterprises. What's also a bit disturbing from the 19th party congress is the fact that there are now party members on boards of private companies as well. These are not the signals that you want to send to the western world in particular, because they cause some concerns.

State-owned enterprises have been around for a long time. Some have given us concern, particularly when they make investments in our natural resource sector. If you take a look at our polling—we did a poll two years ago on foreign direct investment from Asia—the one area that Canadians are quite concerned about is state-owned enterprise investment in the natural resource sector. Only 11% of Canadians supported that. So I think you've hit on a key note.

With respect to Aecon, I see that as a opportunity for Canada. CCCI has invested in a similar type of company in Australia. That investment has gone well. They've added more people. They've kept the management structure. The investment has provided opportunities for this Australian firm in other markets in Asia.

This type of merger can serve as an entree for Canada into the one belt, one road projects that will be taking place. There's lots of money and investments being attached to this. I think we have to be judicious in how we look at these investments from state-owned enterprises. There are policies in place, with the Investment Canada Act, and also our national security interests. We need to go through these processes to examine them and understand whether or not they will have an impact.

To be honest with you, sir, some of my concerns are more in the technology side, particularly moving forward in artificial intelligence, PIN technology, big data management. We need to be aware of that and understand it, how it will impact, because we have a lot of very good young technology companies that are open for merger and acquisition. We just need to understand it. It's something we should be spending a lot of time on as well.

● (1605)

Hon. Erin O'Toole: Those are some unique risks in that sector. Thank you.

Dr. Boutilier, I think you're right: the three-ocean navy, because of the rise of the Pacific, was part of the 1987 defence white paper. These intentions were there 30 years ago, but there was no follow through, and that's a challenge that we face.

Could you speak for a moment about the military capability of China, particularly its blue-water navy capability, and how that is changing—particularly with the construction of islands in the South China Sea—the security of trade routes and just the global balance within the Asia Pacific with respect to naval force, troop movements, that sort of thing?

Dr. James Boutilier: Thank you. That's an extremely important issue. I think what many Canadians fail to appreciate is that in the last third of a century, a navy that is numerically as large as the United States Navy has suddenly appeared on the global scene. Just think about that. As I've said to this committee, I think, on previous occasions when I was a young navigating officer in the Royal Navy long ago, the Royal Navy had 152 frigates and destroyers. Now it has 19. The United States Navy has been cut in two numerically since the mid-1980s, the time of Ronald Reagan.

Now what we have is a new great game. Ambassador Grinius referred to it and I think he's absolutely right, but much of that I would suggest to you is going to be played out at sea. What we see is a country that has never paid attention historically to the sea, who saw the sea as a barrier and saw existential threats originating out of Asia, now embracing sea power as a critical instrument of state policy. You can see the shift within China's continually burgeoning defence budget, which has been rising 8%, 9%, 10%, 11% a year for the last 30 years. The reference was just made to the belt and road initiative, Xi's grand, pharaonic undertaking. This is something that I would suggest is entirely new. It's not to suggest that the Middle Kingdom construct has been abandoned, but China is now beginning to reach out beyond its borders in a way that it has never done historically, and the navy is one of the key elements.

What do we see? We see a growing contest in the western Pacific between the United States Navy and the Chinese and, of course, now, with the reference to the Indo-Pacific, we see the Indian Navy struggling to match the rise of the Chinese navy, this grand contest unfolding at sea. Other navies—Japan, South Korea's, and so on—are all beginning to position themselves alongside Americans, Australians, and Indians for some potential contest at sea.

The South China Sea is a complete exercise in highway robbery. This is enough to make a 19th-century British imperialist blush. Here are Marxists taking over territories that simply do not belong to them, and the arguments they advance are completely bogus. But the fact of the matter remains that, like Putin in the Crimea, Xi carefully calibrated the western response and realized that no one would in fact challenge the building of artificial islands in the South China Sea—and, of course, he has simply ridden roughshod right over the International Court of Justice ruling that came down in July 2016. He simply ignored it. That's one of the real threats that we see in the larger order, with nations like China and Russia simply ignoring international order, where lying is a fundamental pillar of the foreign policy.

What the Chinese have done is consolidate their approaches to one of the critical areas of China from a maritime and naval perspective. They now control the South China Sea. It's their lake.

● (1610)

The Chair: Dr. Boutilier, we're going to leave it there.

Dr. James Boutilier: My apologies, Mr. Chair.

The Chair: No problem. We'll get back to that. I'm sure you'll get a chance to double back as we go.

I want to turn it over to Mr. Levitt, please.

Mr. Michael Levitt (York Centre, Lib.): Thank you, gentlemen, for your analysis.

As a committee we had an opportunity to visit China, Vietnam, and Indonesia in December. As you know, we're travelling to South Korea, Japan, and the Philippines in May.

I want to start with the issue of human rights, because it's one that I think at least two of you mentioned. It presents a dilemma and a challenge, and we faced that challenge when we were in China, particularly. At all three of our stops, we raised issues of human rights. We had discussions, some more successful than others, on issues of religious freedoms, freedom of expression, democratic values, and political repression. You can imagine how some of those conversations went.

There's an expectation by Canadians that Canada is going to continue to get the message out and be a beacon of human rights and those universal values, and yet, of course, Dr. Boutilier, you mentioned the problem when trying to move ahead in dealing with economic agreements and that sort of thing.

Maybe I'll start with Mr. Grinius, first. How do we align the two? Moving forward, how do we approach, from your perspective, the issues of human rights and the need to be forming and building foundations of trade agreements?

Mr. Marius Grinius: It's a tough slog. You've got so many authoritarian dictatorships out there, and they don't like hearing what I believe should be a fundamental Canadian consistent message of concern. This is not only because of Canadian values and all of those sorts of good things, but there is a human rights statute that everybody has signed on to at the United Nations. I do believe we have to live up to those requirements. How one does it is obviously the challenge.

When I was ambassador to Vietnam, I had what often I would call frank and fraternal exchanges of view on human rights. I had a checklist, actually, of individuals who were of concern to Canada and the global sort of community at large; and I believe one had to be consistent in conveying those concerns at the right levels. I did the same with North Korea when I presented my credentials. It was nuclear proliferation and human rights that were my two main talking points with senior people there. I believe that has to be a consistent Canadian message at high levels. We're going to get hammered. Canada will get hammered once in awhile, as you know, but that's fine.

One last thing is the UN Human Rights Council. I was the Canadian representative when that council was formed, and Canada was a member for the first three years. I did the second two, including as vice-president. I notice that Canada has not tried to become a member of the Human Rights Council since my time there, which was in 2005. Why is this? I think there's a global issue in terms of human rights that has to be addressed, and Canada is not there. Russia, China, and Saudi Arabia—those great defenders of human rights—are consistently there as voting members, and I think we have to be there also.

● (1615)

Mr. Michael Levitt: Just on that point, one of the concerns I certainly have, and I chair the subcommittee on international human rights, is that the work in the Human Rights Council is often disproportionately focused in areas...and does not look back at some of the challenges facing those countries, because with the nature of the voting blocks, it gets whitewashed. I think there's frustration. I certainly am frustrated with that. I don't know if that's the issue at hand, but....

Mr. Marius Grinius: There were times when I was a member that the voting score was 46 to one, and I felt that I had surrounded the other 46 members who voted against a Canadian motion, but it had to be there.

Mr. Michael Levitt: You got it on the table. That's good.

Mr. Beck, just on the human rights issue, did you want to add anything on how to approach it? With Canada being out there, what's our obligation?

Mr. Stewart Beck: We have an obligation. I look at it as a short-term and a long-term issue. The short-term one is that we do what we do consistently, and in my career particularly, when I was in China, these were issues that we constantly raised with the Chinese. How it was done depended on whoever was providing the talking points, or whoever the leader was at the table at the time, but it was consistently raised.

The longer term approach is really when you take a look at the number of foreign students from Asia who are now in Canada, particularly from China and India. It goes back to the point I made about millennials and having a millennial strategy. These are young students who are exposed to Canadian values, understand the system, are normally in the country for four years, sometimes longer, and get to understand that. How do we bridge to that generation in a place like China? Also, India is not without its issues as well, let me tell you, from my own experience there. I think this is how we, on a longer term basis, should think strategically about influencing the next generation.

Mr. Michael Levitt: Thank you.

The Chair: We'll now go to Madame Laverdière.

[*Translation*]

Ms. Hélène Laverdière (Laurier—Sainte-Marie, NDP): Thank you very much, Mr. Chair.

I want to thank all three of you for appearing before the committee today.

Mr. Grinius, you referred to Russia as a junior partner, which I find quite interesting. Looking at what is happening on the UN Security Council, it seems that China is more reserved and that the bigger debates and issues are between the Americans and Russia. You presented quite a different picture, which I find very interesting.

Can you elaborate on that please?

[*English*]

Mr. Marius Grinius: I've seen the Chinese-Russian connection and the tag team they played in the Human Rights Council, certainly in areas of nuclear arms control, and from a greater distance, the Security Council deliberations, particularly with respect to North Korea. It has been fascinating there to see their tactical use of the veto and watering down of what should be relatively straightforward Security Council resolutions, including on all the sanctions issues.

In the context of what some people, including me, call the "new great game", I believe it is in Chinese and Russian self-interest to keep the United States geopolitically off-balance. So you have Chinese warships on exercise with Russian warships in the Baltic, the Mediterranean, and the Black Sea. You had Russian ships with Chinese ships in the Pacific. This is the strong messaging and you see it played out in the diplomatic world. You see it in practice in the military world. The first visit by the new Chinese defence minister was to Moscow and he said very openly that they were there to work with Russia in their interests. That certainly gets played out in so many different ways.

There are times, I believe, in the context of, say, anti-terrorism, that it's in the interest of everybody to play and co-operate together, but that's in a very short-term way as opposed to the long-term way that these two countries are playing.

● (1620)

[*Translation*]

Ms. Hélène Laverdière: Mr. Boutilier, you said that defence has a role to play in the Asia Pacific. I would like you to elaborate on that please.

[*English*]

Dr. James Boutilier: The points I was trying to make were, first, that by Canadian standards militaries play a disproportionate role in politics in many of the Asian states we interact with. You can see this in Thailand, for example. You can certainly see it in China and elsewhere. Second, I would suggest that this part of the world is militarizing very rapidly, compared with Europe or South America. Indeed, I would suggest that a naval arms race is unfolding. Maritime power is increasingly the coin of the realm in the Indo-Pacific region, and our navy is very professional but very small. It can have only a tiny influence. I'm suggesting it's an available tool and should be utilized in orchestration with other departments in Canada to maximize the telegraphing to the region that we are committed to the region. It's a highly militarized region; it's a region with high levels of defence expenditure; and it's a region that is bracing itself for a military contest. It behooves us, I think, to position ourselves with nations like Australia, Japan, and South Korea to utilize our military professionalism to advance our national agenda in an appropriate manner.

The Chair: Thank you, Mr. Boutilier, and Madam Laverdière.

We'll go to Mr. Saini, please.

Mr. Raj Saini (Kitchener Centre, Lib.): Good afternoon, everybody.

Thank you very much for coming here.

Mr. Grinius, I'll start with you, especially because you have experience in North Korea. We forget that 27,000 Canadians fought in the Korean War, of which 516 were killed, and we had a presence there at one time.

The previous government had a policy of controlled engagement with North Korea. You have stated on the record, or publicly, that Canada has been running hot and cold for decades in terms of its substantive commitments on the security side, and we should be very interested in long-term stability and security.

If you look at the current situation in the United States right now, there's no U.S. ambassador to South Korea, and there's no U.S. deputy secretary to Southeast Asia.

What is your opinion of the long-term stability of this situation, and what role could Canada play moving forward?

Mr. Marius Grinius: As I mentioned initially, I do believe that Canada has to know for itself what is happening on the ground in North Korea, and you can't do that by reading intelligence reports by somebody else, or listening to what others have to say. I really do believe that you have to be on the ground. After seven or eight years of so-called engagement—which was zero engagement except for one consular case—one has to re-establish credibility and expertise on North Korea. That is the starting point.

It may be a modest impact, but one has to engage regularly at a high level in Pyongyang to say, "Hey, we're here. We have certain concerns that we will raise with you consistently, and we will go from there, whether it's nuclear proliferation, human rights, or regional security, and so on."

Truly, you can only speak with authority on a difficult and dangerous situation like that happening in North Korea if you have actually been there. From my own experience, when I did travel to Pyongyang, countries like the United States, South Korea, and Japan were always interested in what I had to say about what was happening in North Korea, and perhaps I was able to bring a measured and, one hopes, a sensible perspective to the table. Believe me; they were ready to listen. Certainly, with so much unpredictability, we have to plan and be engaged to do so.

● (1625)

Mr. Raj Saini: I'd like to follow up with Dr. Boutilier about your comments on the South China Sea. It's an open secret that the conflict there is based on resources. There is an estimated 11 billion barrels of oil in the South China Sea and an estimated 190 trillion cubic feet of natural gas. We also know that it's a major waterway for international trade; almost $5 trillion U.S. goes through that waterway. There is a naval arms race there with the Indian, Japanese, Australian, and the Malaysian navies.

There was an attempt in 2015 by John Kerry at the ASEAN summit to have the three halts. That seemed to have started a conversation. I know they are going to negotiate now on a multilateral basis, as opposed to China at that time wanting to do more bilateral negotiations on that.

Mr. Grinius, you mentioned something, as did you, Mr. Boutilier, in a very roundabout way. Mr. Grinius, you said there's an ascendancy of China. Is that not the classic definition of the Thucydides trap? Is that not what we're faced with today?

Mr. Marius Grinius: I've read all the papers, the interpretations of that. It was Santayana who said that one must know one's history or else you'll have to re-live it. One would that we have actually learned from those possibilities and do not make the same sorts of mistakes.

I do believe that the globe is so much more integrated, so much more complicated. Certainly, there is always the danger of miscalculation, but—

Mr. Raj Saini: The reason I say that is over the last 500 years, there have been 16 instances where the Thucydides trap has emerged. Twelve of those times, countries have gone to war.

Mr. Marius Grinius: Let us make sure that our political masters are much wiser than they have been in the past. MacMillan's *The War That Ended Peace* is a fine example of how things can just go downhill. I believe we have a huge challenge in terms of the United States right now.

● (1630)

Dr. James Boutilier: I would entirely endorse what the ambassador just said. While Nero fiddles in Washington, the global architecture is shifting in an unattractive way for us. It's desperately important that we pull together in the west. We're far too absorbed with individual concerns, because a new era has dawned in China with Xi since 2012, and is now confirmed with the 19th party congress.

A new, coercive, assertive, arrogant China is on the march, and it's not interested in war. It doesn't have any appetite for war, despite a huge modernizing of the PLA, because it can achieve everything it wants incrementally. It's the carborundum effect, which we saw in the Crimea, which we saw in the South China Sea, and which could be unfolding—that's one of the anxieties—beneath the one belt, one road. Is the belt and road initiative in some ways, in the eyes of some analysts, the thin edge of the wedge in terms of being a larger South China Sea phenomenon, but in the Indian Ocean? I would suggest that we in the west are increasingly endangered by the larger architecture of global affairs, and we need to pull together.

The Chair: I want to leave it there and take this opportunity to thank our witnesses, Mr. Beck, Mr. Grinius, and Mr. Boutilier. I very much enjoyed it. There are days when you sit here as the chair and you don't enjoy it much, but I have to tell you that it was very enjoyable today. I want to thank you very much for being very frank and open, and using your experience and expertise to give us a sense of what we could recommend to the government, because I think this group of members has a very strong sense that we need to do more in Asia. That's certainly why we're reviewing the work that's been done so far and hopefully future endeavours.

Again, thank you very much for your approach today. It was much appreciated.

Colleagues, we're going to suspend for a couple of minutes and then go to our next witnesses.

Thank you very much, Mr. Beck.

● (1630)

(Pause)

● (1635)

The Chair: I want to continue by introducing our witnesses. I'm looking to see if they have shown up on the video. So far, they haven't. In front of us is Mr. de Kerckhove, a fellow and lecturer in the graduate school of public and international affairs at the University of Ottawa.

We also have Hugh Stephens, distinguished fellow of the Asia Pacific Foundation of Canada, by video conference from Victoria, and Sarah Kutulakos, executive director of the Canada China Business Council.

I'll start with the Canada China Business Council, unless people have decided amongst themselves who is starting. Why don't we start with the Canada China Business Council, and Ms. Kutulakos?

Can the people on the video conferencing hear us here in Ottawa?

Mr. Hugh Stephens (Distinguished Fellow, Asia Pacific Foundation of Canada, As an Individual): Yes, this is Hugh Stephens in Victoria. I can hear you loud and clear.

The Chair: Sarah, can you hear us?

No.

Until we get coverage for Sarah, why don't we start with Mr. Stephens' presentation, and then we'll go to Mr. de Kerckhove after him.

Mr. Stephens, the floor is yours.

Mr. Hugh Stephens: Thank you.

Good afternoon, committee members. My name is Hugh Stephens, as you know, and I would like to thank the committee for this opportunity to discuss the important issue of deepening Canada's engagement in Asia.

First, I'll say a brief word about my own background. I served for 28 years with what is now the department of Global Affairs Canada. During that time, I was privileged to have extensive exposure to Asia and to Canada's role in Asia. As a young officer, I was assigned by the then Department of External Affairs to learn Mandarin in Asia before taking up an assignment at the Canadian embassy in Beijing in the late 1970s. I was therefore there at a seminal time for China's emergence from the turmoil of the Cultural Revolution and the beginning of its market reforms and economic opening.

Back in Ottawa, I worked on Asia-related issues among other assignments. My subsequent postings in Asia were at the Canadian embassy, now high commission, in Islamabad in the mid-1980s; at the Canadian embassy in Korea from 1989 to 1992; and finally, as director of Canada's unofficial representation in Taiwan, the Canadian trade office in Taipei from the mid to late 1990s.

I was assistant deputy minister for policy and communications at Foreign Affairs and International Trade when I decided to leave the public service in 2001 to take up an opportunity in the private sector as senior vice-president for public policy for Asia-Pacific for the U. S. media multinational Time Warner. I worked for 12 years for Time Warner, most of it at the company's regional headquarters in Hong Kong.

Upon my return to Canada, I became associated on a voluntary basis with the Asia Pacific Foundation of Canada. The then CEO, now Senator Yuen Pau Woo, asked if I would serve as an executive in-residence to provide advice to the foundation on media issues. I have continued my association with the foundation and am now a so-called distinguished fellow there and concurrently vice-chair of the Canadian National Committee for Pacific Economic Cooperation. This body represents Canada in PECC, the Pacific Economic Cooperation Council. This is a non-governmental track-two organization supported by the foundation that provides its secretariat.

I would like to add that while I am associated with the foundation, I do not speak for it today. I know you had Mr. Beck on earlier, and I am presenting only my own personal views.

Since the committee is considering how Canada should be optimizing its policies toward countries and regional organizations in Asia, I would like highlight briefly the role of PECC because it is, I believe, a regional organization that Canada should continue to use and further develop as but one element of its presence in the region.

PECC was established in 1980, well before to the existence of APEC. In fact, you could say that it was the midwife for APEC's birth. I apologize for the acronyms. Just to clarify, APEC, or Asia-Pacific Economic Cooperation, as I'm sure you are aware, is a governmental organization of 21 economies on both sides of the Pacific Ocean that was established in 1989.

I'll go back to PECC. PECC is composed of experienced practitioners from academia, business, and government, although government officials participate in their private capacity. PECC has conducted many studies on issues affecting the Asia-Pacific region. Its current focus is on sustainable and inclusive growth, trade liberalization and regional integration, and connectivity. PECC's membership is largely synonymous with that of APEC, although there are some minor differences. PECC has a close relationship with APEC and the APEC secretariat and is invited as an official observer to all APEC meetings. Given this special relationship, of course, it focuses its studies and research on issues of relevance to APEC, acting in a sense as its unofficial think tank. Canada has participated in PECC since the outset in 1980 and, in fact, the current co-chair of PECC is Don Campbell, former deputy minister of Foreign Affairs and a former Canadian ambassador to Japan.

Another similar unofficial regional organization is the APEC Business Advisory Council, or ABAC. Again, I apologize for yet one more acronym. Each APEC economy has three ABAC members. Canadian members are appointed by the Government of Canada to serve in a private capacity to offer advice to APEC officials and governments on issues that affect or impact the business community and to recommend policies. Currently, however, Canada has only one of three members. He is Mr. Ralph Lutes, from Teck Resources. Delay in appointing members to ABAC is chronic, and it is rare that Canada has a full complement of ABAC members. This puts a very heavy load on those who voluntarily agree to serve on this council.

● (1640)

As noted, both PECC and ABAC support APEC, which is still the only governmental organization with broad coverage of the Asia-Pacific region, even though it is more of a consultative than a rule-making body. Canada is a founding member of APEC, but in recent years has tended not to give much attention, or to accord much priority, to APEC activities. In fact, the last time that Canada hosted an APEC year, and thus the annual APEC summit, was in 1997 in Vancouver. We are well past the time when we should be seeking to host APEC, which would give us an opportunity to help shape the ongoing Asia-Pacific agenda.

In brief, Canada should take greater advantage of the existing platforms in Asia-Pacific in which it already participates through PECC, ABAC and APEC. I'd be happy to elaborate on what we could possibly do.

In addition to playing a more active role in APEC, I believe that Canada needs to diversify its relationships beyond China, where there is an obvious need for a more structured relationship. In my view, China is an economic and political reality that Canada has to deal with, whether or not we happen to like the path of governance chosen by the current Chinese regime. It's far better to have agreed institutional relationships with China, such as possibly an economic partnership or a free trade agreement, for example, that establishes a rules-based framework to deal with issues and differences, and to build a habit of dialogue, than to try to deal with the rise of China on a case-by-case, reactive basis. But in order to develop relationships with China—and you will know that this is controversial, given the divided opinion of the Canadian public—it's important for Canada to balance any move toward closer ties with China by simultaneously strengthening our linkages with other parts of Asia.

I am pleased to see that this has been done with Korea and has finally been done with Japan through conclusion of the comprehensive and progressive TPP, but there is also a need to reach out to the 10-country ASEAN bloc.

There are many reasons to pursue closer relationships with ASEAN, including helping ASEAN balance China's growing influence in the region; the existence of a large ethnic community in Canada from at least one major ASEAN country, the Philippines; and potential economic benefits for Canada from securing improved access to a market of almost 600 million people.

The Canada-ASEAN trade talks have moved very slowly and cautiously. In fact, they are not official talks at this stage. While it was positive for Canada to establish its own embassy to ASEAN in 2016, I would contend it's time to kick this relationship up a notch and embark on negotiating a free trade or economic partnership agreement with ASEAN in parallel with whatever we do with China.

I will close my remarks at this point. I look forward to your questions.

Thank you very much.

● (1645)

The Chair: Thank you very much, Mr. Stephens.

Sarah, the floor is yours.

Ms. Sarah Kutulakos (Executive Director, Canada China Business Council): Thank you for accommodating me via video, and congratulations to the committee for its important work on Canada's engagement in Asia.

While you are looking at Asia writ large, I will focus exclusively on China.

The Canada-China Business Council was founded 40 years ago by some forward-looking Canadian business people who, back when there was no bilateral business, saw potential to create a non-profit, non-governmental, non-partisan membership organization to help create what I call more business with China and better business with China.

Our 300-plus member organizations are 90% Canadian, with the other 10% being Chinese companies that have made significant investments in Canada. We exist to ensure that Canada benefits from the opportunities that China presents. This is important because, while more trade and investment in both directions benefits both countries, we want to make sure that Canada's economy derives advantage.

The government's relationship with China is crucially important. The health of the relationship has a strong and direct impact on Canadian companies' ability to make deals, to sell and invest more in China, and to attract capital needed here in Canada. China has gone from what I would call an interesting emerging market to play to a major driver of the world economy, contributing fully one-third of the world's annual incremental GDP growth. China's growth is now off such a large base that, at 6.8%, it adds an equivalent of a Canada or an Australia every year wto world GDP. While the broader subject of diversification across Asia is relevant, the fact is that China is just so much bigger than any other Asian country.

Our merchandise trade with China in 2017, at $94 billion, is triple that of our trade with Japan and more than 11 times that with India. It's a very important market for exports of agricultural commodities, like grain and oil seeds, as well as for pulp and paper products. These numbers don't even cover services, which will grow even faster as China's economy focuses on consumption.

Two very important sectors, education and tourism, are what I like to think of as easy sectors, where our exporters don't even really need to leave the country to sell. Both provide important people-to-people connections in which Canadian values can be expressed and shared.

In many ways, China is the elephant in the room; it can't be ignored. Even though our exports to China grew nicely last year, at 13%, they still only make up about 4% of our global exports. With many Canadian companies not even thinking about China yet as an export destination, this number shows two things: that the growth is there, and that this is what we can do without even trying very hard.

When I say "trying very hard", I don't mean to diminish the efforts by all the institutions that I consider tools in the China tool box; but as a country, we don't have a strategy for China and we are not focused enough. Think what we could do with an economic partnership that brings issues and irritants to the fore on a regular basis, reduced tariffs, and open industries. Take Australia, whose FTA with China has been in force for two years now. The news broke yesterday that Australian wine exports to China grew 51% in 2017 to become the first billion-dollar market for Australian wine growers. Canada exported $15 million in wine to China in 2016, and despite its being the destination for 44% of Canadian wine exports, these wine exports were basically flat versus 2015.

Why aren't we doing more business with China? I can answer questions later about the exact barriers, but in fact it's easy to do business with the U.S., so companies have focused there. Companies that choose not to engage China ignore the fact that, as China has grown, it has built capability that creates competition in our core markets. Even if it's for nothing more than ensuring they stay competitive against Chinese companies, every Canadian company needs a China strategy.

Kishore Mahbubani of Singapore's national university argues that the most important event in 2001 was not 9/11; it was China's entry into the WTO, with almost a billion workers joining capitalism, waking up over time to discover they can perform as well as anyone else in the world. This should be Canada's wake-up call that we need to out-innovate and out-compete.

Why aren't we engaging more politically? It might be a question I should ask the committee. We know that surveys show that many Canadians dislike China. There are lots of things I don't like about China, and I've been engaging with it for more than 30 years. I've dealt with China my entire career, including more than a decade with Eastman Kodak, where I learned to think in terms of photographic analogies. If we take a snapshot of China today, I can guarantee there's plenty to find in that snapshot that you don't like—some of the issues that come up in progressive trade negotiations, for example. If we then look at the video of China, we see how things have changed and how quickly, and how the rapid pace of change and the overall impact of China on the world presents both opportunities and challenges. The fact is that China is a part of our world and the more we engage, the more we can discuss things we don't agree on.

● (1650)

I encourage the government to consult Pitman Potter of the University of British Columbia, who has done extensive work on trade and human rights. His 2016 report offers important insight that can inform our progressive trade agenda. Pitman argues that human rights is too general a term, because countries define human rights differently. Think of Maslow's hierarchy of needs, where we think freedom of speech and democracy are paramount but China puts poverty reduction at the top of its list. By expanding the definition of human rights to include development, public health, labour relations, poverty and inequality, and government accountability, a framework can emerge for developing more effective approaches to integrating trade and human rights.

For our government, engagement with China is not an option. It's an imperative, and China is a long-term game. China appreciates strategic continuity, which is why no matter which party is in power, engagement is crucial. Based only on public press reports, I can tell you what China's goals are for 2050. Few countries in the world, including Canada, can map and publicize a 30-year path for development.

Government engagement is absolutely necessary to keep business going. When we consulted with companies across Canada last year about an FTA, many said there would not be that much for them in an agreement, and yet they knew that the process of negotiating it would keep the relationship warm and healthy, and would be good for their business. I strongly encourage the government to launch that free trade negotiation process, which will not be a quick process.

I fear that over the past couple of years, we've been saying nice things to China, but not really showing our ability to act. Delay comes at a cost because as Chinese consumers develop preferences, they will choose to prefer goods and services from the parts of the world that are aggressively engaging with China. Think about my Australian wine example. We need to make a conscious choice to engage and to use the relationship with China to build Canada's prosperity. There are some easy immediate opportunities, like ensuring that we're serving Chinese tourists well so that they tell their friends to come, or developing environmental technologies that China needs as it works very hard to clean up its environment. Neither of those is controversial.

What do we want from China? The business community simply wants a free and fair playing field. Let our companies compete based on our own merits. Let us enter the market and get better at what we do. Don't dictate what corporate structures we have to have. Canadian business will be more inclined to take advantage of China's market opportunity if we have a rules-based system that protects the rights of companies and citizens in both countries.

Where there are really thorny issues like technology transfer, industrial policies that discriminate against foreign companies, and potential encroachment of the government on corporate governance, Canada should speak up and should also do so multilaterally. Multilateral pressure can work.

The China we want and the China we get may be two different things, but we will definitely not get what we want if we don't engage effectively with China's government.

I'm happy to take questions later. Thank you to the members of the committee for undertaking this important work and for giving me the opportunity to testify.

The Chair: Thank you very much for that presentation.

Now we're going to go to Mr. de Kerckhove.

Mr. Ferry de Kerckhove (Fellow and Lecturer, Graduate School of Public and International Affairs, University of Ottawa, As an Individual): Thank you, chairman and honourable members of the committee. It's an honour to be here in front of this committee, which has often been a reference point throughout my career. I'll make my remarks in English.

[*Translation*]

That said, I can of course answer in French and maybe in Russian a bit, but not in Chinese.

[*English*]

Although I sent a detailed CV in advance, I should start by underlining, on the one hand, that I have had three postings in Asia. Iran was my first, then I was in Pakistan as high commissioner, and then Indonesia as ambassador. My three others were to NATO, Russia, and Egypt. The latter, if it were not for ancient geographical prescription, could very much belong to Asia as much as it belongs to Africa.

On the other hand, in my six years of policy planning at the Department of Foreign Affairs over a period of 13 years, I've been involved in pretty much every aspect of strategic thinking on the place of Canada in the world. You won't be surprised with a few thoughts on my part on Canadian foreign policy writ large, which in one way or another underpins our engagement in Asia, or the lack thereof. You will also understand how much I applaud your efforts to try to deepen the knowledge of Canadians regarding things Asian.

While I served my country on the international stage to the best of my abilities during my 38-year tenure in Foreign Affairs and International Trade, now GAC—it has so many acronyms—since leaving government, I have allowed myself to comment on international issues and Canadian government policies and processes to handle these. I draw your attention to the yearly papers produced in both official languages by the Conference of Defence Associations Institute, of which I was the executive vice-president for a number of years. I have either co-authored or authored these papers over the last four years, 2013, 2014, 2015, and 2016. I've given a few copies here. Unfortunately I don't have any 2016 copies left. They're out of print. Maybe they were just too good.

Over a span of four years, I've been able to assess a series of trends and Canada's adjustment to these changing times. There is a constant in these studies: the lack of a real Canadian policy towards Asia beyond platitudes along the lines of its being "an important region for Canada". I'm not exaggerating by much. Given the high quality of the previous presentation by a very informed expert, I will focus more on the security dimension, but I will also start with some commonplace remarks that we've noted over the last 10 years.

The greatest platitude, if I can call it that, and yet a glaring reality, is that there is no such thing as a monolithic Asian continent. The one that matters most positively for Canada borders mostly on the Pacific and the China Seas, but clearly includes India as well. Notwithstanding the important security issues that have been discussed all day long, such as Chinese encroachment in the China Sea, the most glaring troubles of the region start west of India, into the extended Middle Eastern linkages.

The second point is that a general shift in trade and security to the Asia-Pacific region has been noted by Stewart Beck and others, where security is primarily built around a patchwork quilt of bilateral security arrangements rather than the kind of multilateral framework we enjoy within NATO. This is a region in need of a security architecture, even though we know perfectly well who will dominate it. That's why the decision made by Canada in 2012 to actually participate in the first iteration of the Trans-Pacific Partnership was indeed a major sign of engagement and quite a positive step, which was recently enshrined, albeit with a temporary hiccup. It is all the more important that in terms of trade with the region, Canada has been lagging behind our competitors. I was very pleased to hear the head of the Canada China Business Council, because over the past 15 years Canada's exports to China were much lower in terms of total value and rate of growth, so there's a lot to be done on that account.

An additional point is that despite claims to the contrary, there has been little movement in anything approximating a strategic shift beyond the strong trade focus of Canada. While we claim to be a three-ocean nation, our blue navy leaves a lot to be desired, particularly if one remembers that at the end of the Second World War the Canadian navy was the fifth largest in the world. The region that has suffered most from this state of affairs of Canada's maritime presence is definitely the Asia-Pacific region.

● (1655)

There is no doubt in my mind that your repeated visits to the region will make you a strong supporter of the ongoing effort to rebuild our navy to be able to play its part in the most important maritime theatre in the world.

The fact that—most likely for a certain lack of adequate preparation—the Prime Minister's attempt to launch a free trade negotiation with China failed. That fact does not mean that the Canadian government will not continue to engage China, but it underscores that a very careful review of Canada's strategy toward China remains essential as the key subset of a fully articulated Asia-Pacific strategy. And that strategy must take into account the evolving strategic outlook in the region.

Herein lies my key message. At the broadest level, any real review should take into account the impact of the 2008 economic crisis, which affected mostly the western world, and could be the most significant event of the last 50 years, on a par with the fall of the Berlin Wall, as it has irreversibly opened two Chinese doors to the world—economic and political.

Economically, 2008 had many countries in the world starting to look askance at the western version of the capitalist model and its so-called Adam Smith mantra of the invisible hand. Many Asian countries turned their eyes toward the Chinese version of state capitalism with a far less invisible hand, while still allowing winners and losers to battle it out within the ambit of clearly defined state objectives. Today Asian countries all have China as their number one trading partner, and they have adopted in large part the same "more effective" economic model. The belt and road initiative has created a further impetus despite its flaws and uncertainties. That's on the economic side.

Politically, in the same vein, contrasting the vagaries of the American presidency to the clear-sighted approach of the Chinese "emperor" and the "advantages" of an authoritarian regime guiding economic policy, many leaders in the region have felt empowered to reduce political freedom and democratic practices, transforming the legacy of Lee Kuan Yew into a permanent virtue of self-preservation —hence, Duterte and others in the region.

Canada cannot ignore these developments and would benefit, at least from a security perspective, from look carefully at the Australians who, as a Canadian scholar said, are "better at conceptualizing their security and defence perspectives, formulating them into strategies and policies and actually spending the capital determined by these guiding documents for defence procurement and renewal." The Australians do it well. We do it poorly.

Canada may live in a quieter environment with a powerful ally to the south—although Minister Freeland has rightly pointed out that we cannot count on the U.S. automatically—but we need to be clear-eyed and ensure that while trading with our Asian partners, we don't lose sight of their geostrategic ambitions and don't sacrifice our fundamental values in the process.

From a security perspective, Canada cannot be content with a defence policy review that is not based on a national security concept and an accompanying foreign policy. I've lamented time and again the lack of a real foreign policy review, which should underpin a defence policy review, and not the other way around.

I agree with my friend and former colleague, Stewart Beck, CEO of the Asia Pacific Foundation, that "now is the time for Canada to make decisions, take action, and differentiate itself in the Asia Pacific region.... [O]ur country is a beacon and open to the flows of people; however, to be successful...Canada needs focus, intensity, consistency and, more importantly, non-incremental change." However, and this is the key, that policy must be accompanied by a broader political and strategic commitment, what I would call a full-service policy.

Thank you.

● (1700)

The Chair: Thank you very much.

I want to thank all three witnesses.

We're going to go very quickly.

I want to go to Mr. Genuis, please.

Mr. Garnett Genuis (Sherwood Park—Fort Saskatchewan, CPC): Thank you, Mr. Chair.

Thank you to the witnesses.

I'm going to go quickly as well. I really appreciated the testimony.

Ms. Kutulakos, I found your discussion about human rights engagement as it relates to business, and particularly the definition of human rights, interesting. I agree with you that the definition of human rights can be so broad in many contexts that it can be a moving target, and that we need to drill down and be specific about what we're talking about, but I think that requires specificity, not a broadening.

When we were in China as a committee and raised specific human rights issues there—the abuse of Tibetans and Falun Gong practitioners and others—we heard the argument that China has advanced economically, so let's focus on this so-called set of rights as opposed to this set of rights.

I think most of us accept, in the western world at least, that political and civil rights, which you might call intellectual rights, the rights of the mind, have a prior status, that you can't pay someone to give up their right to vote, to practise their religion.

I'm curious if you think our engagement with China should reflect a clear-eyed prioritization of these concepts of human rights over newer, more materialistically defined concepts of rights.

● (1705)

Ms. Sarah Kutulakos: I think we should stick to the details of what we think is important, but we need to be prepared to accept that China may prioritize in different ways. We shouldn't shy away from talking about exactly the things you've brought up, but to be able to keep moving forward in the conversation, we should try to understand the framing of why they are choosing to focus on the things they are focusing on. We come from very different historical backgrounds. Our governments were constituted in very different ways.

It's a very tricky issue. As the business community, we try to focus on how we make things better in the work that we're doing. I think Pitman's work, which I referenced, tends to link what specific things companies can do on things like corporate social responsibility and some of the bigger, thornier issues that tend to be more in the purview of the government-to-government discussion.

I simply bring that forward as a way of framing the discussion.

Mr. Garnett Genuis: Thank you.

What you're saying, if I understand it, and I don't want to put words in your mouth, is that we should express the views that we think are important. We recognize that there may be disagreement on the other side of the table, and that's precisely what constructive dialogue looks like: people discussing and putting these things forward.

Building on that, I look at some of the data from Canada's trade with China over the last 15 years. It seems evident to me that, despite some degree of hand-wringing about how this or that comment might offend the Chinese government, that there has been a relatively steady increase in trade that isn't obviously linked to perceived greater or lesser emphasis on human rights in the context of the discussion.

Does that suggest that we can both trade and be pointed about raising issues of human rights without worrying that the Chinese are going to somehow stop trading with us because they don't like the fact that we talked about some of these fundamental issues, recognizing that trading with us in their interest as much as it is in ours?

Ms. Sarah Kutulakos: Yes, I think you've hit it on the head that we shouldn't shy away from talking about what we think is important, and we shouldn't think that one has to stop because we're talking about the other. I would agree.

Mr. Garnett Genuis: Thank you so much.

I'll move to Mr. Stephens now. I want to ask for your perspective on the issue of state-owned enterprises. If you want to comment on the human rights engagement as well, please do, but I want to specifically drill in on how Canada should respond to concerns about the impact of Chinese state-owned enterprises on commerce, and the fact that we're seeing greater emphasis of party committees even in private companies that are not state owned.

Mr. Hugh Stephens: I know there's a lot of concern among some parties here about the presence of state-owned enterprises and state-owned investments in Canada. It's clear that state-owned enterprises are not exactly like other Western companies and, as you point out, there has been a growing tightening of party control.

That said, I think we have to be confident as Canadians and look at the regulatory framework that we have. The suggestion that a Chinese state-owned enterprise, because perhaps it acted in a certain way in Africa is going to act in this way in Canada—that it's going to undermine labour standards, it's going to undermine environmental standards, it's going to do this, it's going to do that, and act in anti-competitive ways—I think is ridiculous.

We set the playing field here. We set the rules. State-owned enterprises have to act by the same rules as large multinationals from other countries. I think we have to be aware that they're not the same, and we do have to be careful, but I think there's a lot of benefit for Canada in inviting state-owned enterprises into Canada—properly regulated to ensure that they contribute to the economy of this country.

Mr. Garnett Genuis: It's interesting what you say, to me at least, and I'll close with this. You say these state-owned companies that may have been involved in unsavoury activities in other places are less of a concern here because of our regulatory environment.

Of course, the DNA of the company doesn't change, especially if you're dealing with a company like Aecon with access to sensitive security information. It may not be so much what they do here in Canada, because they may be constrained here. It's a question of the information they gather, what they do with that information, and what lines they're prepared to push.

Do you agree or disagree with that?

● (1710)

Mr. Hugh Stephens: I think there are pros and cons on the Aecon side, and the government will be looking at whether there are, in fact, legitimate security concerns to block this. I personally feel that some of the opposition has been raised by companies that don't want to see the increased competition from an Aecon with a very deep-pocketed international partner.

I think at the end of the day, if there is strategic information that is given away, and we give it away, that's our problem. We need to ensure that what is regulated is appropriately regulated. If there are Canadian companies acting abroad, there are still some constraints placed on them in terms of their corporate social responsibilities and so forth.

Again, I think a strong regulatory framework on the part of Canada and close attention to what are legitimate bright lines on security should be adequate to preserve our interests.

Mr. Garnett Genuis: But in fairness to—

Thank you.

The Chair: Thanks, Garnett.

Mr. Sidhu, please.

Mr. Jati Sidhu (Mission—Matsqui—Fraser Canyon, Lib.): Thank you, Mr. Chair.

I'd like to thank all three of you for coming in front of the committee today.

I got to hear China, China, China. I understand that in the economic realm, Canada has focused on the Americas, Europe, the Middle East, and Africa for the last century. In the meantime, Australia has elevated its presence in the Asian region.

Is there anything we could do together with Australia to penetrate our presence in Asia, or have we lost the opportunity already.

I'll start with Sarah, if you don't mind my calling you by your first name.

Ms. Sarah Kutulakos: Not at all.

In working with Australia, I think there are a few things to think about. Australia is, for many, a model of long-term engagement with China, so looking at how it has dealt with that is useful. One of the areas where I think Australia, as well as some other countries, can be helpful is in deciding what we want as foreign companies in China, and how we can access the huge growing middle class there. Australia has come upon one means of doing that, which is their own free trade agreement. But in general there are other aspects of opening up, which, if we work together, we can help to push on.

With regard to the question raised by the last questioner about things like party committees, I think that Australia, which has a strong relationship with China, could be a partner with us in showing a joint face about the unacceptability of things like that.

Mr. Jati Sidhu: Mr. Stephens, would you have a comment?

Mr. Hugh Stephens: Yes, clearly we share a lot of values and a common heritage with Australia, so I think there are clearly areas we can work on in terms of governance.

On the business side, we tend to forget that we are direct competitors with Australia, that bilateral Australian-Canadian trade certainly has room to grow, but that in terms of markets in Asia we tend to compete with Australia. We need to be on a level playing field. That was one of the advantages of the new TPP; it gets us into the Japanese market on a more level playing field with Australia, for example.

So I think on the values side, yes, there is a lot that could be done. When it comes to business, I think we have to sharpen our elbows and pencils and look after Canadian interests first.

Mr. Jati Sidhu: Do you think the TPP could put pressure on China, given they're not part of the TPP and need to get in with Canada when it comes to a free trade agreement?

Mr. de Kerckhove, do you want to comment?

Mr. Ferry de Kerckhove: I've been bold enough to author a paper that was published in the magazine, *Forces*, saying that the missing member in TPP is China. At some stage we will have to accommodate China within it because it is the key player in the region. To me it's pretty obvious, but it's going to take a very long time before we get there, because we still have to get the Americans back into the fray. Trump has alluded to it, but I don't know exactly what Mr. Trump thinks today, as opposed to two minutes ago, so I won't go beyond that.

I think that Hugh is absolutely right when it comes to the competitive dimension. I remember that when we were fostering, for instance, education in Egypt or Pakistan, helping to further educate people from Pakistan and other countries in Canada, or developing our own education field in those countries, the Australians were one of our prime competitors.

The fact that there was a bit of a kerfuffle between the Prime Minister and his Australian counterpart on the TPP also shows that there are some asperities in the relationship that need to be fixed.

I think that over time, if we have a full-fledged, strong TPP, of course there will be a levelling of some of the difficulties, but the competition between the two countries, not just in mining resources but also in agriculture, will remain. So I think that my colleague, Hugh, is absolutely right to underline those.

● (1715)

Mr. Jati Sidhu: Since you have touched on the education part of it, of the 450,000 students in our country, I think one-third are from China. Going forward, do you think that we have a chance for our students to go to China so we have an equal, level playing field?

I hear complaints from the local students that they're having a hard time getting into our own universities and they complain about foreign students coming to our country. What is your take on that?

Mr. Ferry de Kerckhove: I would defer to one of the two experts.

I do consider the level playing field to be a constant objective, and it takes more time to achieve with China, and I fully sympathize with their concern. I think Hugh and Sarah would be able to go deeper into that same question.

Mr. Jati Sidhu: Okay. Take your pick.

Ms. Sarah Kutulakos: I can start.

Certainly, the opportunity for Canadian students to go to China is there, and I think it's a very important element of developing competency toward China. The fact is that take-up on study abroad, outside of places like England and fairly familiar countries, is quite low. I know the Asia Pacific Foundation has done some very good work on this. It isn't so much that China doesn't want these students. It would love to have more, and there are many scholarships that go unused, I'm told. It's a matter of encouraging young people to see that as an opportunity that can benefit their careers.

Mr. Hugh Stephens: May I add briefly?

The Chair: Hold that thought, Mr. Stephens, for a minute. We'll get back to that.

We want to go to our next colleague.

Madame Laverdière has the floor.

[*Translation*]

Ms. Hélène Laverdière: Thank you very much, Mr. Chair.

I want to thank you all for your testimony today.

First, I must say that I completely agree that we need a foreign policy review and that it is our foreign policy that should serve as the basis for our defence policy, and not the other way around.

That said, with regard to security, Mr. de Kerckhove, you pointed out that there is no multilateral security infrastructure in the Asia Pacific. As a former ambassador to Pakistan, and based on your knowledge of relations between Pakistan and India, I imagine you see a lot of difficulties in putting something together.

Would it even be possible to have a more integrated collaboration and cooperation security architecture?

Mr. Ferry de Kerckhove: As to the relationship between India and Pakistan, I would say that it is practically impossible to have a security architecture in this region. Looking at the relationship between Afghanistan and Pakistan alone, which goes back to the creation of Afghanistan and Pakistan, it is a deleterious relationship. Even with regard to the border, there is no agreement because of the Durand line. Further, Afghanistan was the only country that did not recognize Pakistan when it was founded in 1947. Since then, there have been three successive wars between India and Pakistan.

Then there is the very concept of collective security. I still disagree with those who denounce NATO. While it is true that NATO has some problems, it is literally the only stable security architecture in the world that provides some balance. NATO's problem is that, after focusing so much on defending its own perimeter, it is now playing a role outside its perimeter, which has led to the catastrophes in Libya and even Afghanistan and Iraq, although NATO did not take action in Iraq.

The ASEAN architecture, on the other hand, has a completely different dimension. There will be no security architecture. In any case, China by far prefers bilateral agreements over restrictive multilateral agreements, which limit its range of action.

The NATO model is therefore unique and it will certainly not impact the Asia Pacific, where it will in any event be managed bilaterally by China and its partners.

● (1720)

Ms. Hélène Laverdière: I would like to ask you all a rather strange question. This will not be a first for me.

We have talked a lot about the institutions that Canada can play a more active role in, and specific members were mentioned where possible.

Is the Commonwealth still a tool for Canada in the region?

Mr. Ferry de Kerckhove: I will answer the honourable member because that is provocation.

Voices: Ha, ha!

Mr. Ferry de Kerckhove: The fact is that we have worked together on these issues a great deal in the past, which we publicly acknowledge.

I am in fact in the process of organizing a conference at the University of Ottawa on the political Francophonie, and I would be very pleased for you to take part. To the extent that both the Commonwealth and the Francophonie are functional geographic institutions that do not really have the means to achieve their ambitions, nor the resonance at the United Nations, which is the main authority, the enthusiasm for these institutions has waned.

Further, as to the Francophonie, it is blindly forging ahead and to date, I think there are close to 92 countries that are more or less members, some are observer members, others are alternate members, and so forth. In short, it is expanding but without any consideration. The Commonwealth, on the other hand, is much more stable because, if you look at the Francophonie, there is France and Canada and the other countries, whereas the Commonwealth has more stable countries such as India, Great Britain, Canada, Australia, and South Africa. So it is an institution that should in principle be much more promising and that the committee might wish to consider again. I think, however, that both of these organizations suffer from a degree of institutional weakness, as well as a significant lack of resources. With regard to our topic today, I think that the role and influence of the Commonwealth and the Francophonie, both of which have members in Asia, are therefore not very important.

Ms. Hélène Laverdière: Thank you.

[*English*]

The Chair: We're going to Mr. Levitt, please.

Mr. Michael Levitt: I'm going to pass my time to Mr. Wrzesnewskyj.

Mr. Borys Wrzesnewskyj (Etobicoke Centre, Lib.): I'd like to come back to some of the issues raised by Mr. Grinius. When Chinese state-owned companies acquire Canadian companies, are these then run as Canadian subsidiaries of a Chinese state-controlled company, or do they become Chinese subsidiaries within Canada? It almost seems like a rhetorical question.

I'm not sure that our regulatory framework and the way we decide these questions are adequately suited to this particular scenario. Should we think in terms of a special ongoing regulatory framework that's not a one-shot decision—"okay, we're going to allow this to proceed"—but that there be a regular review whenever these sorts of decisions are made. These are not regular corporate entities the way we understand them. This idea of "corporate DNA" is actually "central party DNA" in an evolving oligarchic state capitalist system within China.

In the opinion polling, the Canadian public may not fully comprehend what it is, but that unease about Chinese investments in major companies here in Canada is quite accurate. In an innate way, the public sees the potential dangers of a one-shot decision—"okay, we're going to allow this to proceed"—and then we live with the consequences for decades afterwards.

We'll start with you, sir.

● (1725)

Mr. Ferry de Kerckhove: I'll defer to the two with much greater expertise, but I am sympathetic to this notion of an evolving regulatory framework: the more we practise some of those new relationships.... I agree entirely with Hugh. We should pursue this with our eyes open, but we should definitely pursue them. The question is, do we have to think about a special regulatory framework to manage them over time, if only to assuage the concern of Canadians? I don't think we have to over-regulate, but we have to answer your questions about whether those SOEs will be conducted like private concerns over time.

My impression is that the Chinese themselves would want their SOEs to reform and to conduct themselves like real business concerns, but I really defer to Sarah and Hugh on this.

Mr. Borys Wrzesnewskyj: Perhaps, we'll go to Sarah.

Ms. Sarah Kutulakos: Yes, we work closely with a number of SOEs that have invested here. I think it's important to note that the subsidiaries that establish in Canada in most cases report up through publicly listed companies on the New York Stock Exchange or the Stock Exchange of Hong Kong and, in some cases, the Shanghai Stock Exchange.

From my observation of them, they are operating as truly commercial entities. Any sort of influence from headquarters implied by the notion that the state is running these companies is not something that the executives here in Canada would think about on a daily basis, if ever. They're really looking at these questions: Is the market big enough? Are we following the regulations? Are we reporting back to the regulatory authorities the way we think we should?

I think when it comes to expectations of SOE investment in Canada, we need to make it very clear what we expect, especially with regard to management teams and things like that. I see examples like the oil sands companies, which have kept very local management teams, a very low percentage of expatriates. They've continued to make capital investments in the oil sands even during a very difficult economic period, because they really want to do the right thing and they want to be good corporate citizens in Canada.

I guess I would caution about a separate regulatory regime. Perhaps the issue is to assuage the concerns of Canadians or Canadian officials. Are there things you can require them to provide you that show they are following the rules?

I'll turn it over to Hugh for more comment.

Mr. Hugh Stephens: I would just add that we have the investment Canada process, and it can always be tweaked. Certainly when CNOOC acquired Nexen it was required to commit to a number of undertakings, which it may or may not have done. Things are little hard to enforce sometimes after the fact.

I wouldn't disagree that we should keep our minds open, that there is always a possibility for regulation to evolve. At the moment, it's gone in the direction of somewhat lighter regulation. If there were an experience or reason to think it should be tightened or tweaked in certain areas, that's certainly within the purview of the government to consider.

The Chair: I'm going to wrap it up here.

I want to thank our witnesses very much for their presentations. This is a very good start on our continued engagement in Asia and the importance of it to Canada's future, so I want to thank our expert witnesses for coming forward and making it a little easier for us to make recommendations to the Government of Canada on behalf of all Canadians.

The meeting is adjourned.

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